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SUBJECT: GHANA: EXTRACTIVE INDUSTRIES AND ENVIRONMENTAL HIGHLIGHTS,
SEPTEMBER - OCTOBER 2009

1. SUMMARY:

1A. (U) The mining industry faces challenges caused by Ghana's current economic woes. Rising input costs, political pressures, and labor issues cause concerns despite sustained high commodity prices for gold.

1B. (SBU) Despite the various challenges it faces in Ghana, U.S. firm Newmont Mining contemplates doubling their investment in Ghana, in the range of up to an additional USD 800 million.

1C. (SBU) Ghana's Ministry of Food and Agriculture stated it will not renew any pair trawling licenses, due to the rapid depletion of marine resources and potential long-term consequences for Ghana's fishing industry. However, Ghana's fuel subsidies are here to stay; they continue to incentivize further depletion of dwindling fishing stocks. USAID has begun coastal management assistance in impacted communities in the Western Region.

1A. TOUGH TIMES FOR MINING

12. (U) Mining companies report that their operating costs rise at a greater rate than revenue growth; resulting in lower net profitability. COMMENT: This is likely a function of high domestic inflation rates. END COMMENT.

13. (U) Given Ghana's high inflation rates, mining companies have struggled to meet worker expectations. Earlier in the year, mine workers went on strike demanding better wages. The mine workers demanded a 24.5 percent increase, which given 20 percent average inflation rates for 2009 alone is akin to a real increase of 4.5 percent. Sector specific reports indicate that for the mining sector in Ghana, input costs have risen by 40 percent in the past two years.

14. (SBU) Rhetoric from GOG officials fans negative public perceptions that the mining industry has not delivered sufficient economic benefits to Ghana, and particularly the host communities. In discussing the future of the upstream oil and gas industry, GOG officials cite the mining sector as a negative example, a 'lesson to be learned' about the exploitation of Ghana by foreign companies who don't do enough for the local communities.

1B. NEWMONT: DESPITE RISKS, LONG ON GHANA

15. (SBU) Newmont Mining represents the largest single U.S. investment in Ghana. Capital investment at Newmont's Ahafo mine is valued at USD 650 million, and the company employs approximately three thousand Ghanaians. Newmont has invested considerable time and effort in corporate social responsibility (CSR) programs,

including support for the Extractive Industries Transparency Initiative. In a recent meeting with ECONOFFs, Newmont representatives detailed their interest in expanding their operations to another mine site, in Akyem. If approved, the Akyem investment of USD 700 Million and 3300 new employees would double Newmont's investment and employment figures in Ghana.

¶17. (SBU) Newmont reports that four elements impact their expansion decision in Ghana. First is the fundamental issue of securing a new mining permit for Akyem, needed for expansion to another site. While previous government officers were willing to issue a mining permit literally in its last day in office, Newmont chose to wait for the new government to seek official permission for opening a new mine.

¶18. (SBU) Based on its original investment agreement, Newmont claims exemption from the new 'stability levy,' a tax instituted by the new government in mid 2009 on a range of industries, including telecom, mining, and breweries. The government is in dialogue with Newmont regarding the interpretation of its original investment agreement as exempting it from this new tax. (COMMENT: Although not a huge tax burden, the larger question is the sanctity of contracts and investment agreements in Ghana. END COMMENT.)

¶19. (SBU) In 2008, Newmont and other gold mining operations were faced with a concerted GOG attempt to dramatically raise their power prices. Although a more modest rate increase acceptable to Newmont was finally agreed to, power pricing is an ongoing concern. Mining operations have high power requirements than other industries. Finally, Newmont continues to face bureaucratic delays and challenges in securing the needed visas and work permits for its foreign workers.

¶C. FISHING: PAIR TRAWLING BANNED, FUEL SUBSIDIES A PROBLEM

¶10. The GOG has banned pair trawling in Ghana's waters. What began as a job done by small trawlers and vessels is now being done by larger trawlers which significantly disrupt marine ecosystems. Given potential squabbles over regulating only certain sizes of vessels, the GOG moved to ban the entire practice of pair trawling.

¶11. USAID Ghana has recently begun a new program working with fishing communities on management of their coastal resources. Fish are a critical source of nutrition for many Ghanaians. Given their proximity to Ghana's offshore oil deposits and the West Africa gas pipeline, fishing communities need long-term sustainable economic opportunities, so they do not become marginalized 'spoilers' compromising the development of Ghana's oil and gas sector.

¶12. The GOG's heavy subsidization of 'pre-mix' fuel (motor oil and gasoline) for outboard motors used by fishermen has perverse consequences. The large subsidy encourages too many fishermen to chase dwindling marine stocks. Pre-mix fuel is also reputed to be siphoned off along the supply chain, to be sold illegally as normal gasoline. COMMENT: Given political support of fishing communities in electing the current government, the likelihood of the government rolling back these inefficient subsidies is limited. END COMMENT.

FURUTA-TOY